

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

#### MINUTES OF MEETING

Wednesday, June 15, 2011

The Board of Administration met on Wednesday, June 15, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:32 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Dan Dunmoyer
Richard Costigan
JJ Jelincic
Henry Jones
Grant Boyken for Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira
Howard Schwartz for Ronald Yank

Board of Administration Members excused: none

## AGENDA ITEM 3 - APPROVAL OF MAY 2011 MEETING MINUTES

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic, and **CARRIED** that the May 18, 2011 Open Session minutes be approved as presented.

#### AGENDA ITEM 4 - PRESIDENT'S REPORT

President Feckner acknowledged the hard work and extra efforts of staff that resulted in strong first quarter returns. The investment staff of the California State Teachers' Retirement System (CalSTRS) recently sent CalPERS investment staff a letter of encouragement and support.

President Feckner bade an official farewell to Pat Macht, Deputy Executive Officer of External Affairs, after 19 years of State service. As chief spokesperson for CalPERS, Ms. Macht was responsible for establishing a full-fledged communications program at

CalPERS. Some of her many achievements include: creation of the first enterprise employee communications program; establishment of the CalPERS internet and intranet, CalPERS Online and the Insider; development of a highly professional video program called the CalPERS member network, a robust media relations program; and significant outreach to CalPERS 1.6 million members.

During her tenure, Ms. Macht's staff have issued more than 800 press releases and garnered over one million mentions in local, national, and international news articles. Ms. Macht was honored in 2008 with a Lifetime Achievement Award by the State Information Officers' Council.

President Feckner presented Ms. Macht with a Board resolution honoring her years of service.

The Board of Administration Open Session recessed at 10:45 a.m. and reconvened at 11:00 a.m.

#### AGENDA ITEM 5 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

- CalPERS Investment staff, under Joe Dear's leadership, have earned back more than \$70 billion. The Fund is on track to earn double digit returns for the current fiscal year.
- CalPERS funded status continues to rise. The health care rate package for 2012 to be voted on by the Board includes a very modest rate increase.
- Over 1800 employees are participating in training and testing in preparation for the new my|CalPERS launch.
- CalPERS has increased efficiency and decreased operating costs by almost a billion dollars for 2010, without compromising customer service to members and employers.
- CalPERS fundamental objectives in the coming year are: serving and protecting
  its more than one and a half million members; ensuring public trust in the
  organization; and serving as a responsible investor for California and for the
  Fund.
- CalPERS Jammin' for the Cure campaign raised nearly \$22,000 in support of the Komen Foundation for breast cancer research. CalPERS team was the largest government team in the event, at over 100 members. Team captains were Denise Osier, Janet Thornton and Mary Hartman Morris.

Ms. Stausboll expressed her deep appreciation to Pat Macht for her years of service to CalPERS, and introduced Robert Glazier who will be joining CalPERS on July 1 as the new Director of External Affairs. Mr. Glazier is a 28-year veteran of communications and

joins CalPERS from the California Business Transportation and Housing Agency where he served as Deputy Secretary of External Affairs.

Ms. Stausboll also announced the departure of Michael Willihnganz, Chief of Human Resources. Mr. Willihnganz has accepted a position with the Placer County Water Agency.

Ms. Stausboll recognized the efforts of the Compensation Review unit, responsible for ensuring that employers are in compliance with the Public Employees' Retirement Law (PERL) and for monitoring and addressing pension spiking issues.

# AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of April 30, 2011 the Total Fund was approximately \$239.2 billion.
- For the one year period ending April 30, 2011, the net rate of return was approximately 14.79%.
- For the fiscal year-to-date period ending April 30, 2011, the net rate of return was 21.9%.
- Janine Guillot, Chief Operating Investment Officer, has received an appointment to the Systematic Resolution Advisory Committee of the Federal Deposit Insurance Corporation (FDIC).

## AGENDA ITEM 7 - INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, June 13, 2011.

Additional information may be found in the June 13, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for August 15, 2011 in Sacramento, California.

# **AGENDA ITEM 8 - RISK MANAGEMENT COMMITTEE**

Tony Oliveira, Chair, Risk Management Committee, presented the Committee Summary report to the Board. The Committee met on Monday, June 13, 2011.

Additional information may be found in the June 13, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

Acceptance of the first reading of the Risk Management Committee Charter.

The next meeting of the Investment Committee is scheduled for August 15, 2011 in Sacramento, California.

#### AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Chair, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, June 14, 2011.

Additional information may be found in the June 14, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Adoption of an oppose position on AB 1184 (Gatto) unless the bill is amended to eliminate the section on excessive compensation and provide only for the elimination of the Replacement Benefits Program for new CalPERS members.
- Adoption of a support position on AB 1247 (Fletcher) with the following suggested amendments:
  - Calculate the contribution rates and liabilities utilizing one percentage point above and below the investment return assumption instead of two percentage points.
  - Allow the Chairman of the California Actuarial Advisory Panel (CAAP) or designee to present to the joint legislative committees.
- Rescission of Board Resolution 07-01-AESB and adoption of Board Resolutions EXEC-11-01 and ACT-11-02 (Attachments 1 & 2 of the Committee meeting handouts) delegating authority to terminate contracts, and adoption of an actuarial policy for determining actuarial liabilities of plans upon termination.

The next meeting of the Benefits and Program Administration Committee is scheduled for August 16, 2011 in Sacramento, California.

#### AGENDA ITEM 10 - HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 14, 2011.

Additional information may be found in the June 14, 2011 Agenda materials and transcripts of the Committee meeting.

Richard Costigan recused himself from any of the following votes related to Blue Shield.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Approval of staff's recommendation regarding the 2012 proposed benefit design modifications as follows:
  - A "member pays the difference" requirement when a doctor prescribes a drug as Dispense as Written, and for members who select brand name drugs when a Food and Drug Administration approved generic equivalent is available. The existing provision that allows a prescriber to request authorization for a brand based on medical necessity is still in place, and if approved, the member will not have to pay the difference, only the nonpreferred copayment.
  - An increase in the prescription copay of \$5.00 for brand medications, and the standardization of 90-day mail order prescriptions to have double the copay of a 30-day retail prescription. Generic copayments remain the same.
  - A clarification of last year's removal of non-preferred drugs from the \$1,000 out-of-pocket maximum for mail order prescriptions to exclude life style drugs.
  - An expansion of value based purchasing for the PPO plans for Arthroscopy, Colonoscopy and Cataract procedures.
  - For Blue Shield of California:
    - Expand NetValue in Contra Costa County and adding providers to NetValue in Los Angeles, Riverside and San Bernardino Counties; and withdrawing from Santa Barbara County;
    - Expand the Group Medicare Advantage Part D program into Imperial, San Joaquin, San Francisco, and Nevada Counties;
    - Implement value based purchasing for hip and knees; and
    - Expand the integrated health care model into Orange County through an exclusive NetValue network with St. Joseph Health systems; and expand into Stanislaus County.

On **MOTION** by the Committee and **CARRIED** with one abstention by JJ Jelincic, the Board approved the following:

Approval of staff's recommendation regarding the proposed 2012 Health
Maintenance Organization rates for Kaiser Permanente and Blue Shield of
California, as set forth in Attachment 1 of the Committee meeting handouts. The
rates include:

- Benefit design changes
- Applying the use of Early Retiree Reinsurance Program monies
- For Blue Shield of California, applying the full rollover amount of contractual risk sharing benefit.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Approval of staff's recommendation regarding the proposed 2012 rates for the Preferred Provider Organization Health Plans, as set forth in Attachment 2 of the Committee meeting handouts. The rates include:
  - Benefit design changes
  - Applying the use of Early Retiree Reinsurance Program monies
  - Applying excess reserves in our PPO plans.
- Approval of staff's recommendation regarding the proposed rates for the California Association of Highway Patrolmen (CAHP) Health Benefits Trust, the California Correctional Peace Officers Association (CCPOA) Benefit Trust Fund, and the Peace Officers Research Association of California (PORAC) Insurance and Benefits Trust, as set forth in Attachment 3 of the Committee meeting handouts.
- Approval of staff's recommendation to adopt the proposed regulations to prohibit rescissions of health care coverage in specific circumstances, pending the conclusion of the public comment period.

On **MOTION** by the Priya Mathur, **SECONDED** by George Diehr, and **CARRIED**, the Board approved the following:

 Approval of the contract for Pharmacy Benefit Manager services with CVS Caremark.

The next meeting of the Health Benefits Committee is scheduled for August 16, 2011 in Sacramento, California.

### AGENDA ITEM 11 - FINANCE COMMITTEE

Henry Jones, Chair, presented the Finance Committee Summary report to the Board. The Committee met on Monday, June 13, 2011.

Additional information may be found in the June 13, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Approval of adoption of the Audit Plan for fiscal year 2012-12 as proposed.
- Approval of the revisions to the Office of Audit Services Charter as first reading.
- Approval of the following Contingency Reserve Fund Appropriations (CRF) adjustments:
  - Approval of an increase to the CRF of \$27,000 in FY 2010-11 for a total CRF budget of \$25,931,000 and approval of this revised budget.
  - Acceptance of a decrease to the Public Employees' Retirement Fund (PERF) of \$27,000 in FY 2010-11 for a total PERF budget of \$265,396,000 and approval of this revised budget.
  - Acceptance of the proposed California Public Employees' Retirement System (CalPERS) FY 2010-11 cost allocation adjustment to the CRF and PERF, and approval of the cost allocation.
  - Approval of the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the 2010 Budget Act, and to the Legislative Analyst's Office and the State and Consumer Services Agency.
- Approval of the revision to the Finance Committee Charter as a first reading.

The next meeting of the Finance Committee is scheduled for September 13, 2011 in Sacramento, California.

## AGENDA ITEM 12 – AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in June.

#### AGENDA ITEM 13 – PERFORMANCE AND COMPENSATION COMMITTEE

Dan Dunmoyer, Vice Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 14, 2011.

Additional information may be found in the June 14, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED** with one nay vote by JJ Jelincic, the Board approved the following:

 Acceptance of staff's recommendation to approve the second and final reading of the 2011-2012 performance plans for the Chief Executive Officer, Chief Actuary and General Counsel.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Acceptance of staff's recommendation to approve the second and final reading of the 2011-12 performance plans for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers.

The next meeting of the Performance and Compensation Committee is scheduled for June 13, 2011 in Sacramento, California.

## AGENDA ITEM 14 - BOARD MEETING CALENDAR

No changes were made to the Calendar.

# AGENDA ITEM 15 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The project continues with many concurrent critical activities to prepare for launch. All are progressing well except for Customer Acceptance Testing (CAT) which remains approximately four weeks behind. Additional resources have been committed within the past week.
- Computer-based training has been released for both internal staff and employers and is receiving high usage from both groups.
- Instructor led training will begin in July along with dry runs of the system conversion.
- The project team continues to actively manage several risks that are in an escalated status.

John Nichols, Project Manager, Accenture, reported on the progress of the project from Accenture's perspective.

Chris Jasper, KPMG, Project Oversight, generally concurred with the conditions stated in the PSR report, and expressed concern about competing demands for the available resources to support critical activities. Mr. Jasper was encouraged by the data conversion progress made in June.

#### **AGENDA ITEM 16 – DIVERSITY UPDATE**

Steve Kessler, Deputy Executive Officer, Operations and Technology, provided an update on Diversity and reported on the following:

- Highlights of CalPERS Diversity Outreach Program efforts:
  - o Developed a draft 2011-12 Enterprise Diversity Inclusion Strategic Plan
  - Hosted 23 top level HR professionals from China
  - Conducted an online enterprise employee disability survey and increased parity rate from 13.8 percent to 18 percent
  - Facilitated four diversity Executive Staff Committee meetings
  - Conducted program presentations in areas of new employee orientation and leadership assessments
  - Contributed to the CalPERS Commitment to Diversity report
  - Hosted three quarterly brown bag luncheon series on diversity inclusion
  - Published our first Disability Advisory Council brochure
  - Completed the annual Workforce Analysis Report
  - For the first time, developed a Limited Examination Appointment Program (LEAP) program policy in partnership with Human Resources
  - Administered the 2010 Enterprise Diversity and Inclusion poll survey
  - Sponsored the Diversity Awareness training for CalPERS leaders
  - Conducted the Diversity and Inclusion Employee Focus Group
  - Developed performance factors for management and supervisors to require disability awareness training for leaders.
  - Integrated language into various training modules
  - Incorporated a diversity and inclusion segment into the CEA performance objectives beginning July 1
  - Completed the 2009-10 Commitment to Diversity report and distributed it to constituency groups and the Legislature.

Janine Guillot, Chief Operating Investment Officer, Investment Office, provided an update and reported on the following:

- Investment Office accomplishments for fiscal year 2010-12:
  - Contributed to the development of the overall objectives in the Enterprise Diversity and Inclusion Strategic plan
  - Substantially improved the content of the investment section and the CalPERS commitment to the diversity annual report, including enhanced disclosure of the numbers of emerging managers
  - Sponsored a Day at CalPERS recruitment effort targeted at Toigo fellows and other business students
  - Committed a total of \$400 million to three emerging managers through the Manager Development Program in global equity.
  - Completed the selection process for a spring-fed pool of consultants and selected six firms
  - Continued to enhance the brokerage outreach, evaluation and selection process
  - o Initiated development of an emerging manager program for real estate
  - Hosted an hour-long online webinar on Wednesday, June 1 to reach out to emerging managers
  - Participated in the Consortium, a forum for plan sponsors, minority and women-owned firms
  - Scheduled to participate in the National Association of Securities Professionals (NASP) 22<sup>nd</sup> Annual Conference where CalPERS will receive the NASP Pacesetter award.
  - Scheduled to host a workshop for new and emerging managers in Sacramento on June 28.

Gina Ratto, Deputy General Counsel, provided an update and reported on the following:

- The Legal Office activities and progress in expanding the diversity of outside counsel is included in the materials for this agenda item.
- The Legal Office has recently concluded its interviews for outside counsel specializing in the area of labor and employment law and is negotiating contracts with three firms. All five of the attorneys that will be assigned to CalPERS are diverse.

• In the last quarter, a minority woman-owned law firm was added to the real estate investment counsel pool.

#### AGENDA ITEM 17 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

 On May 26, External Affairs hosted a meeting for the Ambassador Program, attended by about 30 individuals from the Retired Public Employees Association (RPEA) and the California State Employees Association (CSEA). A similar event to host these organizations in Southern California has been scheduled for September 27.

# AGENDA ITEM 18 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- All four CalPERS sponsored bills have made it over to the second House.
- The mandated health benefits bills are on hold until the essential health benefits come out of the Department of Health and Human Services (HHS) in January.
- A State budget vote to be taken soon is not expected to include any pensionrelated legislation.

# AGENDA ITEM 19 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- By the end of the month, Mr. Lussier will have visited with the staff of every member of the California delegation to discuss the Public Employee Pension Transparency Act.
- CalPERS co-sponsored a Congressional staff briefing with retirement systems from twelve other states to discuss Social Security.
- CalPERS staff will be in Washington next week to meet with the majority members of the House Financial Services Committee, particularly those from California, to discuss concerns about current efforts to repeal provisions of the Dodd-Frank Act.

 Mr. Lussier is actively working with Ralph Neas from the National Coalition on Health Care (NCHC) to talk about advancing cost containment in comprehensive health care reform.

# **AGENDA ITEM 20 - PUBLIC AFFAIRS UPDATE**

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and reported on the following:

- A report was provided to the Board representing some of the highlights and significant activity of the Public Affairs group over the last 30 days.
- The CalPERS Responds website now allows visitors to respond to posts in a blog format. A new search feature has also been added, as well as a new subject area called "accountability and ethics" that will outline some of the significant reforms made by CalPERS.

#### AGENDA ITEM 21 – BOARD TRAVEL APPROVALS

On **MOTION** by JJ Jelincic, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved the Board travel.

# AGENDA ITEM 22 - DRAFT AGENDA FOR August 17, 2011 MEETING

No comments.

## AGENDA ITEM 23 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

# AGENDA ITEM 24 - DELEGATION, BOARD GOVERNANCE COMMITTEE

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones and **CARRIED**, the Board approved the revised delegation resolution for the Board Governance Committee designating the Board President as the Chair of the Committee and the Board Vice President as the Vice Chair of the Committee, with additional language stating the intention of the Board that the Committee membership consist of the Chairs of the standing Committees.

President Feckner introduced and welcomed Chiraq Shah, who is the Board's counsel on proposed decision hearings.

## AGENDA ITEM 25 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 25A through 25H.

On **MOTION** by Priya Mathur, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved staff's recommendations for proposed decisions of Administrative Law Judges for 25A through 25H, except 25E.

On **MOTION** by Grant Boyken, **SECONDED** by President Feckner and **CARRIED**, the Board approved staff's recommendation for the proposed decision of Administrative Law Judge for 25E.

## **AGENDA ITEM 26 – PETITION FOR RECONSIDERATION**

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr and **CARRIED**, the Board approved denying the Petition for Reconsideration by Nathaniel Eddins.

#### AGENDA ITEM 27 - FULL BOARD HEARING DECISION - RITA TAKAHASHI

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved staff's recommendation for resolution in the appeal by Rita Takahashi.

## **AGENDA ITEM 28 – PUBLIC COMMENT**

Neal Johnson, Service Employees International Union (SEIU) Local 1000, was present to express concerns about proposed gift limits that potentially force state employees traveling on state business to pay out of pocket for expenses.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:55 p.m.

The next Board of Administration meeting is scheduled for August 17, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer